

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman; and
Robert G. Taub

Competitive Product Prices
First-Class Package Service
First-Class Package Service Contract 36

Docket No. MC2014-32

Competitive Product Prices
First-Class Package Service Contract 36 (MC2014-32)
Negotiated Service Agreement

Docket No. CP2014-57

ORDER ADDING FIRST-CLASS PACKAGE SERVICE CONTRACT 36
TO THE COMPETITIVE PRODUCT LIST

(Issued July 21, 2014)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as First-Class Package Service Contract 36 to the competitive product list.¹ For the reasons discussed below, the Commission approves the Request.

¹ Request of the United States Postal Service to Add First-Class Package Service Contract 36 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, July 3, 2014 (Request).

II. BACKGROUND

On July 3, 2014, in accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, the Postal Service filed the Request, along with supporting documents. In the Request, the Postal Service asserts that First-Class Package Service Contract 36 is a competitive product that establishes rates “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. Among the supporting documents, the Postal Service included a copy of the Governors’ Decision authorizing the product, a contract related to the proposed new product, requested changes to the competitive product list, a statement supporting the Request, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that redacted portions of the Governors’ Decision and the contract, customer-identifying information, and related financial information remain under seal. Request, Attachment F.²

The contract is intended to take effect one business day after the issue date of this Order. Request, Attachment B at 3. It is set to expire three years thereafter. *Id.*

On July 8, 2014, the Commission issued an order establishing the two dockets, appointing a Public Representative, and providing interested persons with an opportunity to comment.³

² In its application for non-public treatment of materials, the Postal Service asks the Commission to protect customer-identifying information from public disclosure indefinitely. *Id.* at 7. The Commission has consistently denied similar requests for indefinite protection. See, e.g., Docket Nos. MC2011-1 and CP2011-2, Order No. 563, Order Approving Express Mail Contract 9 Negotiated Service Agreement, October 20, 2010, at 6-7.

³ Order No. 2116, Notice and Order Concerning the Addition of First-Class Package Service Contract 36 to the Competitive Product List, July 8, 2014.

On July 10, 2014, Chairman's Information Request No. 1 was issued.⁴ The Postal Service filed its response on July 16, 2014.⁵

III. COMMENTS

The Public Representative filed comments on July 15, 2014.⁶ No other interested person filed comments.

The Public Representative agrees with the Postal Service that First-Class Package Service Contract 36 should be characterized as a competitive product. PR Comments at 2-3. However, he contends that the contract is misclassified under the First-Class Package Service Contracts heading, and instead should be classified under the Priority Mail & First-Class Package Service Contracts heading. *Id.* at 3. With this change in characterization, he argues that the Postal Service should update and revise its financial workpapers accordingly. *Id.*

The Public Representative explains that the contract in this docket (Contract 36) is the successor to the contract approved in Docket No. CP2012-19 (Contract 1). *Id.* He notes that an important difference between the two contracts is that Contract 1 is limited to inbound (returns) of First-Class Package Service packages weighing less than one pound, whereas Contract 36 places no similar restriction on package weight. *Id.* He also notes that permitting returns over one pound is a significant difference from other contracts under the First-Class Package Service Contracts heading. Thus, he suggests that Contract 36 may be more appropriately placed under the Priority Mail & First-Class Package Service Contracts heading. *Id.* at 4.

⁴ Chairman's Information Request No. 1 and Notice of Filing Under Seal, July 10, 2014 (CHIR No. 1).

⁵ Notice of the United States Postal Service of Filing Responses to Chairman's Information Request No. 1 Under Seal, July 16, 2014 (Postal Service Response to CHIR No. 1). The Postal Service also filed Motion of the United States Postal Service for Late Acceptance of Responses to Chairman's Information Request No. 1, July 16, 2014. This motion is granted.

⁶ Public Representative Comments on Postal Service Request to Add First-Class Package Service Contract 36 to the Competitive Product List, July 15, 2014 (PR Comments).

The Public Representative states that the Postal Service's financial workpapers do not estimate an average weight per piece or separately estimate unit costs for returns weighing more than one pound. *Id.* at 4. Because of this, he concludes that the Postal Service appears to have underestimated the costs of Contract 36. *Id.* at 4-5.

At this point, the Public Representative states he is unable to determine whether or not Contract 36 will generate sufficient revenue to cover costs. *Id.* at 5. He requests that the Postal Service update the financial workpapers using separately estimated costs for package returns weighing more than one pound to permit this determination. *Id.*

IV. COMMISSION ANALYSIS

The Commission has reviewed the Request, the contract, the supporting data filed under seal, the response to CHIR No. 1, and the Public Representative's comments.

Product list requirements. The Commission's statutory responsibilities when evaluating the Request include assigning First-Class Package Service Contract 36 to either the market dominant or competitive product list. See 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3020.34. Before adding a product to the competitive product list, the Commission must determine that the Postal Service does not exercise sufficient market power that it can effectively set the price of the product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. See 39 U.S.C. § 3642(b)(1). In addition, the Commission must consider the availability and nature of private sector enterprises engaged in delivering the product, the views of those who use the product, and the likely impact on small business concerns. See 39 U.S.C. § 3642(b)(3); 39 C.F.R. §§ 3020.32(f), (g), and (h).

The Postal Service asserts that it provides postal services of the kind provided under the contract in a highly competitive market, that other shippers who provide

similar services constrain its bargaining position, and that it can therefore neither raise prices nor decrease service, quality, or output without risking the loss of business to competitors. Request, Attachment D at 2. The Postal Service states that the contract partner supports the Request, that expedited shipping is widely available from private firms, and that the Postal Service is unaware of any small business concerns that could offer comparable services to the contract partner. *Id.* at 3.

The Commission finds that the Postal Service does not exercise sufficient market power that it can effectively set the price of the proposed product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. The availability of other private sector providers supports this conclusion. The contract partner and the Public Representative support the addition of the product to the competitive product list. Further, there is no evidence of an adverse impact on small businesses. For these reasons, having considered the relevant statutory and regulatory requirements, the comments filed, and the Postal Service's supporting justification, the Commission finds that the product is appropriately classified as competitive.

The Commission shares the Public Representative's concern that Contract 36 does not fit neatly under the First-Class Package Service Contracts heading because Contract 36 may allow shipment of packages over one pound. The First-Class Package Service product, upon which Contract 36 is based, has a weight limitation of up to thirteen ounces for Commercial Base pricing and less than sixteen ounces for Commercial Plus pricing.⁷ Characterizing the purpose of Contract 36 as for the return of packages also differs from the vast majority of contracts under this heading.

The Public Representative suggests that Contract 36 best fits under the Priority Mail & First-Class Package Service Contracts heading. CHIR No. 1, question 7 asks the Postal Service to consider an entirely new heading, which focuses on the return

⁷ Mail Classification Schedule section 2125.2. Postal Service Response to CHIR No. 1, question 1.

feature for contracts of this type. The Postal Service's preference is to keep Contract 36 under the First-Class Package Service Contracts heading. Postal Service Response to CHIR No.1, question 7.

In this instance, the Commission will defer to the Postal Service's preference. The Postal Service's supporting data suggests that the vast majority of packages will exhibit the characteristics of the First-Class Package Service product.⁸ First-Class Package Service Contract 36 will be placed under the First-Class Package Service Contracts heading on the competitive product list.

Cost considerations. Because the Commission finds First-Class Package Service Contract 36 is a competitive product, the Postal Service must also show that the contract covers its attributable costs, does not cause market dominant products to subsidize competitive products as a whole, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by the contract exceeds its attributable costs, the contract is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if the contract covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

Based on a review of the record, the Commission finds that the rates during the first year of the contract should cover the contract's attributable costs.⁹ 39 U.S.C. § 3633(a)(2). For this reason, it finds that the contract should not result in competitive

⁸ A negotiated service agreement may tailor any aspect of an existing product, including weight limitations, to the needs of an individual mailer. The issue in this docket is with the product name given to the negotiated service agreement, and its similarities to other agreements. Confusing or misleading product names are to be avoided, along with placing dissimilar products under the same mail classification heading. In this case, the estimated average weight of all packages, and the estimated percentage of all pieces by volume exceeding one pound were important considerations in accepting the Postal Service's proposal.

⁹ The Postal Service Response to CHIR No. 1, questions 2-6 provided helpful information to understanding the costs considerations associated with Contract 36. Initially providing equivalent information upon the filing of similar requests may expedite the review process.

products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, it finds the contract is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). See also 39 C.F.R. § 3015.7(c). Accordingly, a preliminary review of the contract indicates it is consistent with section 3633(a).

The contract contains a price adjustment provision that increases contract rates during subsequent contract years. Request, Attachment B at 2. The adjustment provision increases the likelihood that rates will cover attributable costs during subsequent contract years. The Commission will review the contract's cost coverage and the contribution of competitive products as a whole to the Postal Service's institutional costs in the Commission's Annual Compliance Determination to ensure that they continue to comply with 39 U.S.C. § 3633(a).

Other considerations. By its terms, the contract becomes effective one business day after the date that the Commission issues all necessary regulatory approvals. *Id.* at 3. The contract is scheduled to expire three years from the effective date, unless, among other things, either party terminates the contract with 30 days' written notice to the other party or it is renewed by mutual agreement.¹⁰

If the instant contract is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

Within 30 days after the instant contract terminates, the Postal Service shall file the annual (contract year) costs, volumes, and revenues disaggregated by rate category associated with the contract.

In conclusion, the Commission approves First-Class Package Service Contract 36 as a new product. The revision to the competitive product list appears below the signature of this Order and is effective immediately.

¹⁰ *Id.* at 3. Should both parties agree to renew the contract, any such renewal is required to follow the requirements of 39 U.S.C. § 3633 and the Commission's implementing regulations of 39 C.F.R. part 3015.

V. ORDERING PARAGRAPHS

It is ordered:

1. First-Class Package Service Contract 36 (MC2014-32 and CP2014-57) is added to the competitive product list as a new product under Negotiated Service Agreements, Domestic. Revisions to the competitive product list and the Mail Classification Schedule appear below the signature of this Order and are effective immediately.
2. The Postal Service shall notify the Commission if the instant contract terminates prior to the scheduled expiration date as discussed in this Order.
3. Within 30 days after the instant contract terminates, the Postal Service shall file the annual (contract year) costs, volumes, and revenues disaggregated by rate category associated with the contract.
4. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Shoshana M. Grove
Secretary

CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix A to 39 C.F.R. part 3020, subpart A—Mail Classification Schedule. These changes reflect the Commission's order in Docket Nos. MC2014-32 and CP2014-57. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Part B—Competitive Products **2000 Competitive Product List**

Negotiated Service Agreements*

Domestic*

First-Class Package Service Contract 36

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products **2000 Competitive Product List**

Negotiated Service Agreements*

Domestic*

First-Class Package Service Contract 36

2500 **Negotiated Service Agreements**

2505 **Domestic**

2505.10 **First-Class Package Service Contracts**

- First-Class Package Service Contract 36

Baseline Reference

Docket Nos. MC2014-32 and CP2014-57

PRC Order No. 2128, July 21, 2014

Included Agreements

CP2014-57, expires July 22, 2017
